



WEINLANDER FITZHUGH

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KAWKAWLIN METROPOLITAN DISTRICT KAWKAWLIN, MICHIGAN

FINANCIAL STATEMENTS JULY 31, 2008

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November 4, 2008

Independent Auditors' Report

Board of Commissioners
Kawkawlin Metropolitan District
Kawkawlin, Michigan

We have audited the accompanying financial statements of the business-type activities and its major fund of the Kawkawlin Metropolitan District as of and for the year ended July 31, 2008, which collectively comprise the Kawkawlin Metropolitan District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and its major fund of the Kawkawlin Metropolitan District as of July 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

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WEINLANDER FITZHUGH

Board of Commissioners
Kawkawlin Metropolitan District
November 4, 2008
Page 2

The management's discussion and analysis as identified in the table of contents are not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Weinlander Fitzhugh

KAWKAWLIN METROPOLITAN DISTRICT
Management's Discussion & Analysis
For the Year Ended July 31, 2008

The Kawkawlin Metropolitan District (District) is presenting the following discussion and analysis in order to provide an overall review of the District's financial activities for the fiscal year ending July 31, 2008. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- The District's net assets increased by \$51,000.
- During the year "operating revenues" decreased by \$13,700 and "operating expenses" decreased by \$16,000.
- Service connections decreased by \$4,500.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report includes this management's discussion and analysis report, the independent auditors' report and the basic financial statements of the District. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

The Statement of Activities presents information showing how the district's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements report functions that are intended to recover all, or a significant portion, of their costs through user fees and charges (business-type activities). The business-type activity of the District is the water system.

KAWKAWLIN METROPOLITAN DISTRICT
Management's Discussion & Analysis
For the Year Ended July 31, 2008

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District's only fund is a proprietary fund.

Proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses an enterprise fund to account for its water system.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information on the only major fund of the District.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide fund financial statements.

FINANCIAL ANALYSIS OF THE DEPARTMENT

The most common financial question posed to the District is "How did we do financially during the fiscal year?" The Statement of Net Assets and the Statement of Activities report information about the District's activities in a way that will help answer this question. The two statements report the net assets of the District and the change in them.

Net Assets

The statement of net assets provides the perspective of the District as a whole. Exhibit A provides a summary of the District's net assets as of July 31, 2008.

KAWKAWLIN METROPOLITAN DISTRICT
Management's Discussion & Analysis
For the Year Ended July 31, 2008

Exhibit A

	<u>Business-Type Activities</u>	
	<u>2008</u>	<u>2007</u>
Assets		
Current assets	\$ 271,858	\$ 215,213
Capital assets - net of accumulated depreciation	<u>311,831</u>	<u>319,195</u>
Total assets	<u>583,689</u>	<u>534,408</u>
Liabilities		
Current liabilities	<u>7,442</u>	<u>9,117</u>
Net Assets		
Investment in capital assets	311,831	319,195
Unrestricted	<u>264,416</u>	<u>206,096</u>
Total net assets	<u>\$ 576,247</u>	<u>\$ 525,291</u>

Exhibit A focuses on the net assets of the District. The District's net assets were \$576,247 at July 31, 2008. Capital assets, net of related debt, totaling \$311,831 compares the original cost, less depreciation of the District's capital assets to long-term debt used to finance the acquisition of those assets, if any.

The \$264,416 in unrestricted net assets of business-type activities represents the *accumulated* results of all past and current year's operations.

The results of this year's operations for the District as a whole are reported in the statement of activities (Exhibit B), which shows the changes in net assets for the year ended July 31, 2008.

KAWKAWLIN METROPOLITAN DISTRICT
Management's Discussion & Analysis
For the Year Ended July 31, 2008

Exhibit B

	<u>Business-type Activities</u>	
	<u>2008</u>	<u>2007</u>
Revenue		
Program revenue:		
Charge for service	\$ 187,449	\$ 205,779
General revenue:		
Investment earnings	<u>1,322</u>	<u>1,354</u>
Total revenue	188,771	207,133
 Function/Program Expenses		
Water	<u>137,815</u>	<u>151,460</u>
 Increase in Net Assets	<u><u>\$ 50,956</u></u>	<u><u>\$ 55,673</u></u>

While the Statement of Net Assets shows the change in financial position of assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes. As can be seen in Exhibit B above, the decrease in charges for service is a major factor in the decrease in the change in net assets in 2008.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FUND

Proprietary fund. The District's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

KAWKAWLIN METROPOLITAN DISTRICT
Management's Discussion & Analysis
For the Year Ended July 31, 2008

	Business-type Activities	
	2008	2007
Gross service charges	\$ 179,866	\$ 193,619
Cost of water	<u>80,200</u>	<u>77,809</u>
Gross profit	99,666	115,810
Operating revenue	7,583	12,160
Operating expenses	(57,615)	(73,651)
Nonoperating revenue	<u>1,322</u>	<u>1,354</u>
Change in net assets	<u>\$ 50,956</u>	<u>\$ 55,673</u>
Total net assets - end of year	<u>\$ 576,247</u>	<u>\$ 525,291</u>

Budgetary Highlights

The preparation of budgets is not required for proprietary funds.

Capital Assets

The District had \$311,831 (net of accumulated depreciation) invested in capital assets as of July 31, 2008. The investment in capital assets includes land, building, equipment and water distribution system.

KAWKAWLIN METROPOLITAN DISTRICT
Management's Discussion & Analysis
For the Year Ended July 31, 2008

	<u>2008</u>	<u>2007</u>
Land	\$ 2,000	\$ 2,000
Buildings	11,713	11,713
Equipment	38,052	38,052
Distribution system	472,555	472,555
Construction in progress	<u>6,575</u>	<u>0</u>
 Total capital assets	 530,895	 524,320
 Less accumulated depreciation	 <u>219,064</u>	 <u>205,125</u>
 Net capital assets	 <u><u>\$ 311,831</u></u>	 <u><u>\$ 319,195</u></u>

Depreciation expense has been allocated to water operations.

Long-Term Debt

The District has no long-term debt outstanding at July 31, 2008.

Factors Expected to have an Effect on Future Operations

We are not aware of any factors that will have a significant impact on future operations.

Requests For Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Mr. Brad Shaw
Kawkawlin Metropolitan District
PO Box 367
Kawkawlin, MI 48631

KAWKAWLIN METROPOLITAN DISTRICT
Statement of Net Assets
July 31, 2008

	<u>Business-type Activities</u>
<u>Assets</u>	
Cash	\$ 210,369
Certificates of deposit	31,264
Accounts receivable	30,225
Capital assets less accumulated depreciation of \$219,064	<u>311,831</u>
Total assets	<u>583,689</u>
<u>Liabilities</u>	
Accounts payable	7,208
Accrued payroll taxes	<u>234</u>
Total liabilities	<u>7,442</u>
<u>Net Assets</u>	
Investment in capital assets - net of related debt	311,831
Unrestricted	<u>264,416</u>
Total net assets	<u><u>\$ 576,247</u></u>

See accompanying notes to financial statements

KAWKAWLIN METROPOLITAN DISTRICT
Statement of Activities
For the Year Ended July 31, 2008

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Business- Type Activities</u>
		<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Business-type Activities					
Water	<u>\$ 137,815</u>	<u>\$ 187,449</u>	<u>\$ 0</u>	<u>\$ 0</u>	\$ 49,634
General revenues:					
Interest earnings					<u>1,322</u>
			Change in net assets		50,956
			Net assets - beginning of year		<u>525,291</u>
			Net assets - end of year		<u>\$ 576,247</u>

See accompanying notes to financial statements

KAWKAWLIN METROPOLITAN DISTRICT
Statement of Net Assets
Proprietary Fund
July 31, 2008

	<u>Business-type Activities Enterprise Fund</u>
<u>ASSETS</u>	
<u>Current Assets</u>	
Cash	\$ 210,369
Certificates of deposit	31,264
Accounts receivable	<u>30,225</u>
Total current assets	<u>271,858</u>
<u>Property and Equipment - At Cost</u>	
Land	2,000
Building	11,713
Equipment	38,052
Distribution system	472,555
Construction in progress	<u>6,575</u>
	530,895
Less allowance for depreciation	<u>(219,064)</u>
Net property and equipment	<u>311,831</u>
Total Assets	<u>583,689</u>
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts payable	7,208
Accrued payroll taxes	<u>234</u>
Total liabilities	<u>7,442</u>
<u>NET ASSETS</u>	
Investment in capital assets - net of related debt	311,831
Unrestricted	<u>264,416</u>
Total net assets	<u>\$ 576,247</u>

See accompanying notes to financial statements

KAWKAWLIN METROPOLITAN DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended July 31, 2008

	Business-type Activities Enterprise Fund
Gross service charges	\$ 179,866
Water cost	80,200
	<hr/>
Gross profit	99,666
	<hr/>
Operating revenues:	
Hydrant rental	3,083
Service connections	4,500
	<hr/>
Total operating revenues	7,583
	<hr/>
<u>Operating Expenses</u>	
Repairs and maintenance	7,891
Depreciation	13,939
Administrative wages	9,600
Maintenance wages	4,935
Meetings	4,900
Insurance	3,323
Legal and accounting	3,915
Billing charges	1,130
Dues and licenses	1,629
Payroll taxes	1,112
Office expense	4,303
Utilities	474
Telephone and pager	464
	<hr/>
Total operating expenses	57,615
	<hr/>
Operating income	49,634
	<hr/>
Nonoperating revenues:	
Interest income	1,322
	<hr/>
Change in net assets	50,956
	<hr/>
Net assets - beginning of year	525,291
	<hr/>
Net assets - end of year	\$ 576,247
	<hr/> <hr/>

See accompanying notes to financial statements

KAWKAWLIN METROPOLITAN DISTRICT
Statement of Cash Flows
Proprietary Fund
For the Year Ended July 31, 2008

	Business-type Activities
	<u>Enterprise Fund</u>
<u>Cash Flows From Operating Activities:</u>	
Cash received from customers	\$ 180,601
Cash payments to suppliers for goods and services	(109,904)
Cash payments to employees for services	(15,647)
Other operating income	<u>7,583</u>
Net cash flows from operating activities	62,633
<u>Cash Flows From Investing Activities:</u>	
Purchase of fixed assets	<u>(6,575)</u>
Net increase in cash	56,058
Cash and cash equivalents, at beginning of year	<u>154,311</u>
Cash and cash equivalents, at end of year	<u><u>\$ 210,369</u></u>

See accompanying notes to financial statements

KAWKAWLIN METROPOLITAN DISTRICT
Notes to Financial Statements
For the Year Ended July 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Kawkawlin Metropolitan District (District) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Kawkawlin Metropolitan District.

Reporting Entity

The Kawkawlin Metropolitan District was formed under Act 312 of the Public Acts for the year 1929, as amended. The District operates a water supply system. The District purchases water in bulk from the Bay County Department of Water and Sewer and resells it to customers within the District.

The District is governed by a Board of Commissioners. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which governmental organizations are a part of the District's reporting entity, and which organizations are legally separate component units of the District. The District has no component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Government activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. All of the District's government-wide activities are considered business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include, (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting operations or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

KAWKAWLIN METROPOLITAN DISTRICT
Notes to Financial Statements
For the Year Ended July 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Separate fund financial statements are provided for the major enterprise fund.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District reports the following major proprietary fund.

- The Water Fund accounts for activities of the water distribution system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989, for its business-type activities.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for water services. The water fund also recognizes the portion of tap fees intended to cover current costs (e.g., labor and material to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

KAWKAWLIN METROPOLITAN DISTRICT
Notes to Financial Statements
For the Year Ended July 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables – Accounts receivable consist of utility charges to the District's customers. No allowance for doubtful accounts has been included in these statements because most delinquent receivables can be added to the tax roll if they remain unpaid and become a lien against the property.

Capital Assets – Capital assets, which include property, plant, and equipment are reported in the applicable business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and any asset susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$0 of interest expense was capitalized as part of the cost of assets under construction.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Building	20 years
Equipment	5-15 years
Distribution system	30-50 years

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

KAWKAWLIN METROPOLITAN DISTRICT
Notes to Financial Statements
For the Year Ended July 31, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS

State statutes and the District's investment policy authorize the District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The District's deposits are in accordance with statutory authority.

At year-end, the District's deposits were reported in the basic financial statements as follows.

	<u>Governmental Activities</u>
Deposits (checking and savings accounts, certificates of deposit)	<u>\$ 241,633</u>

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of July 31, 2008, \$141,633 of the District's bank balance of \$241,633 was exposed to custodial credit risk because the entire balance was uninsured and uncollateralized.

The District's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

KAWKAWLIN METROPOLITAN DISTRICT
Notes to Financial Statements
For the Year Ended July 31, 2008

NOTE 3 – CAPITAL ASSETS

Capital asset activity of the District for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,000	\$ 0	\$ 0	\$ 2,000
Construction in progress	0	6,575	0	6,575
Subtotal	2,000	6,575	0	8,575
Capital assets being depreciated:				
Building	11,713	0	0	11,713
Equipment	38,052	0	0	38,052
Distribution system	472,555	0	0	472,555
Subtotal	522,320	0	0	522,320
Less accumulated depreciation for:				
Building	11,713	0	0	11,713
Equipment	33,373	2,087	0	35,460
Distribution system	160,039	11,852	0	171,891
Subtotal	205,125	13,939	0	219,064
Net capital assets being depreciated	317,195	(13,939)	0	303,256
Net capital assets	\$ 319,195	\$ (7,364)	\$ 0	\$ 311,831

Depreciation expense has been allocated to water operations.

KAWKAWLIN METROPOLITAN DISTRICT
Notes to Financial Statements
For the Year Ended July 31, 2008

**NOTE 4 - RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS
FROM OPERATING ACTIVITIES**

Operating income	\$ 49,634
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation	13,939
Change in assets and liabilities:	
Accounts receivable	735
Accounts payable	<u>(1,675)</u>
Net cash flows from operating activities	<u>\$ 62,633</u>

NOTE 5 - RELATED PARTY TRANSACTIONS

The District purchased services for system replacement, repairs and maintenance and supplies in the amount of \$7,882 from a Company owned by one employee of the District.



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Board of Commissioners
Kawkawlin Metropolitan District
Kawkawlin, Michigan

In planning and performing our audit of the financial statements of Kawkawlin Metropolitan District (District) as of and for the year ended July 31, 2008, in accordance with U.S. generally accepted auditing standards, we considered Kawkawlin Metropolitan District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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Board of Commissioners
Kawkawlin Metropolitan District
November 4, 2008
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In addition, as part of our consideration of the internal control over financial reporting, we as auditors are not allowed to be considered to be part of the District's internal controls. In taking this required position, we must consider whether the District has the ability, on its own, to monitor and report financial activity in accordance with our professional standards without auditor intervention.

It is not uncommon that small organizations cannot provide the resources in their budgets to maintain the financial expertise on a full time basis. This is the situation with the District. Due to the limited financial expertise of the staff, the District does not have the ability to monitor and report financial activity without auditor intervention.

This communication is intended solely for the information and use of the Board of Commissioners, management and others within the District and is not intended to be and should not be used by anyone other than these specified parties.

We hope we can be of further assistance and are available to discuss these comments, and their possible implementation, with you at any time. Please do not hesitate to contact us.

Very truly yours,

WEINLANDER FITZHUGH